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UNCLAS SECTION 01 OF 02 ANKARA 007002

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DEPT FOR EB/TPP/ABT - EHEARTNEY, EB/IFD/OIA
COMMERCE FOR ITA/OTEXA/MARIA D'ANDREA
DEPT PASS USTR FOR LERRION
TREASURY FOR INTERNATIONAL AFFAIRS

SENSITIVE

E.O. 12958: N/A
TAGS: ETRD EIND KTEX EFIN TU

SUBJECT: GOT PESSIMISTIC ABOUT POST-2005 TEXTILE AND APPAREL EXPORTS AND PRODUCTION

Ref: (A) Istanbul 1807 (B) ADANA 112
(C) Ankara 5661

SENSITIVE BUT UNCLASSIFIED. PLEASE HANDLE ACCORDINGLY.

Summary

¶1. (SBU) A Turkish Foreign Trade official expressed considerable pessimism about the likely losses of Turkey's textile industry post-2005, and urged the USG to impose safeguards on Chinese apparel imports. Turkey will retain some competitive advantages, especially proximity and short delivery times to the EU market, which should help limit the impact. Nevertheless, liberalization will create economic dislocation, varying according to region and product line. In the wake of the Egypt QIZ announcement, there may be renewed pressure from the Turks for trade concessions from the USG. End Summary.

¶2. (U) Turkish officials, including State Minister for Foreign Trade Kursad Tuzmen, as well as industry executives have been bullish in their comments to the media on Turkish industry's future after textile and apparel quotas are lifted at the beginning of 2005. In November, Tuzmen told the media that Turkey - with its strong record in and proximity to - Western markets, was ready for heightened competition with China. Turkish executives, such as the Chair of the Turkish Exporters Assembly (TIM), have made similar arguments, and have led business delegations to China to try to establish partnerships between Turkish and Chinese companies.

¶3. (SBU) In a December 10 meeting with Econoff, Econ Specialist and TDY U.S. Treasury Economist, Foreign Trade Undersecretariat (FTU) Deputy Director General for Exports Ziya Altunyaldiz echoed the pessimism of Turkish textile and apparel industry executives on their ability to withstand increased competition after January 2005 (ref A). Altunyaldiz opined that only a few countries (and principally China) would benefit from the end of the quota system, and that other developing countries including Turkey expected to lose ground in traditional export markets. FTU believes that, beginning in the second half of 2005 and over the next several years, Turkey could lose 20 to 30 percent of its export market in these sectors. Altunyaldiz was not optimistic that a focus on branding and high-value products would compensate for these losses. Under these circumstances, Altunyaldiz added, it was vital that the EU and USG take a stand for "fair trade" and impose safeguard and other restrictive trade measures to combat unfair practices in the Chinese apparel industry.

¶4. (U) Econoff suggested that cooperation with the USG in intellectual property protection and in maritime security could indirectly benefit Turkish exporters. He described the U.S. STOP! Initiative to combat counterfeit and pirated goods worldwide, and noted that some successful Turkish clothing exporters were already experiencing losses in foreign markets due to these problems. Econoff also raised the U.S. proposal to include the port of Izmir in the Container Security Initiative. Contrary to Turkish industry's perceptions (ref A), this program should enhance rather than damage Turkey's competitive position relative to countries not included in the program.

¶5. (SBU) Several of Embassy's nongovernmental contacts in Ankara backed up the dire predictions of FTU as well as Istanbul-based industry associations on export and production losses in a post-quota world. The General Secretary of the Cotton Manufacturer's Association, the

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Deputy Secretary General of TIM, and the leader of the Oz-Iplik Labor Union all agreed that Turkish industry would be hurt badly by Chinese competition "if" textile and clothing categories are fully integrated into the WTO system as planned. Note: Our non-governmental interlocutors believed that there is still a chance, albeit a small one, that WTO members would agree to the three-year postponement to the end of the quota system called for in the Istanbul Declaration of U.S. and Turkish manufacturers. The GOT has not endorsed this delay, but has communicated serious concerns at the WTO Council for Trade in Goods about the likely negative impact on most developing countries. End Note. TIM predicted that Turkey's advantages (principally proximity to EU markets and a proven track record there) would limit losses to some extent. On the other hand, Oz-Iplik hinted at massive job losses and possibly even social unrest in conjunction with the abolition of quotas.

¶6. (SBU) Several of Consulate Adana's contacts in the industry in southeastern Turkey recently pointed out that unfair trade practices in Turkey's informal economy are also a source of pressure on taxpaying, law-abiding firms in Turkey. These practices, including tax avoidance, theft of electricity, and violation of minimum wage legislation. FTU's Altunyaldiz expressed the opinion that the lifting of quotas would have a more severe effect on Turkey's formal sector apparel companies than on its informal sector companies.

Comment

¶7. (SBU) Turkish industry and, to a lesser extent, the GOT are stressing the prospect of losses in export markets for their apparel manufacturers, while multilateral organizations and investment banks predict a more limited impact. The Turks have an incentive to magnify potential losses to encourage the U.S. and the EU to impose safeguard actions against Chinese goods, and possibly to support calls for trade preferences. This is even more likely now in the wake of the agreement on Egypt Qualifying Industrial Zones. Turkey's geographic and other advantages, as well as the trend toward a more diverse industrial and export base, will help limit Turkey's losses post-2005. However, some economic dislocation, varying on a regional basis and falling most heavily on the lowest value-added products, is likely.

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